

Twin Valley Telephone Company, Inc.
2002 Regulated and Non-regulated Cost Identification Processes

Twin Valley Telephone Company (TVT) provides both regulated telephone services and non-regulated services. An affiliate of TVT, Twin Valley Communications (TVC), provides non-regulated services and TVT provides services to TVC on a contractual basis. This document describes the accounting and cost procedures that TVT utilizes to account for investments and expenses associated with non-regulated services. Additionally, this document explains transactions between TVT and TVC that support non-regulated services provided by TVC and the accounting process for those transactions.

Non-regulated Services Provided by TVT and TVC¹

1. Non-regulated Services Provided and Accounted for by TVT:
 - a. Long Distance – TVT provides Interstate and Intrastate long distance services to customers in its service area. This service is provided on a resale basis – TVT resells the services of a facilities-based long distance carrier.
 - b. Internet –TVT provides both dial-up and 128Kbps dedicated Internet services
 - c. Inside Wire – TVT performs installation, maintenance and repair of customer premise inside wire. The company offers inside wire maintenance plans and also provides installation and maintenance services at an hourly charge.
 - d. Voice Mail Services
 - e. Payphone Services
2. Non-regulated Services provided and Accounted for by TVC:
 - a. TVC provides Cable Television services in select service areas of TVT. Cable Television is provided on TVC facilities that are separate from those owned and operated by TVT.
 - b. Telephone systems (Key, PBX, etc.) sales and installation and maintenance

¹ TVT also operated a Cellular Telephone sales agency. Operation of this agency was discontinued in 2001.

- c. Alarm Services
- 3. Pursuant to an Affiliate Agreement (See Attachment 1), TVT provides the following services to TVC:
 - a. Installation and maintenance of Cable Television service
 - b. Installation and maintenance of telephone systems
 - c. Customer service and billing and collection
 - d. Management and Administration

FCC Rules for Allocation of Costs to Non-regulated Services and Affiliate Services

TVT accounts for costs associated with providing non-regulated services in conformance with the FCC Part 64 FCC Rules. These rules govern the assignment and/or allocation of costs between regulated and non-regulated services. The requirements contained in the rules for small LECs are general guidelines. In assigning costs to regulated and non-regulated activities, carriers must follow these principles:

- ❑ Tariff services provided to a non-regulated activity will be charged at the tariff rates and credited to the regulated revenue account for that service.
- ❑ Costs shall be directly assigned to regulated or non-regulated activities whenever possible.
- ❑ Costs which cannot be directly assigned to either regulated or non-regulated are considered common and must be allocated based on the following criteria:
 - Common costs should be first allocated based upon direct analysis of their origin.
 - When direct analysis is not possible, common costs should be allocated based upon a cost causative linkage or another cost category for which direct analysis is possible.
 - If neither of the above are possible, the common costs should be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities.

Generally, the FCC Part 32 Rules require that services provided to affiliates be based on fully allocated costs.

TVT Procedures for Assignment of Costs to Non-regulated Operations

Consistent with the FCC Rules, TVT has implemented accounting procedures that directly identify or account for the majority of non-regulated costs or identify non-regulated costs on a cost-causative allocation basis. A high level summary of TVT's non-regulated cost identification process is shown in the table below.

Cost Description	Directly Identified as Non-regulated	Assigned to Non-regulated on a Cost-Causative Basis		
		Time Study	Related Investment	Special Study
Investments				
-Payphone	X			
-Voicemail	X			
-Land				X
-Buildings				X
-Motor Vehicles		X		
-Tools & Oth Wk. Eq.		X		
-Furniture				X
-Office Equipment				X
-Computers				X
Reserves				
-Voicemail	X			
-Payphone	X			
-Other Reserves			X	
Service Related Exp.				
-Payphone	X			
-Term Equipment I&R.	X			
-Voice Mail	X			
-Long Distance	X			
-Internet	X			
-TVT Contract Labor	X			
Depreciation Expense				
-Voicemail	X			
-Payphone	X			
-Other Investments			X	
Facility Related Exp.				
-Buildings			X	
-Motor Vehicles	X			
-Tools & Oth Wk. Eq.			X	
-Furniture			X	
-Office Equipment			X	
-Computers			X	
Other Expenses				
-Billing and Collection	X			
-Benefits	X			
-General and Admin	X			

TVT has established accounts to capture costs that are associated with non-regulated services. In addition to the direct identification procedures, general support assets and expenses are allocated to non-regulated services based on an analysis of floor space and/or time studies. All non-regulated costs, identified on the basis of allocation procedures, are removed from accounts prior to application of jurisdictional separations procedures. The procedures for identification of non-regulated costs are presented in more detail below.

Assignment of Investments and Associated Reserves to Non-regulated Services

Direct investments or equipment that is deployed for Voice Mail Services and Payphone Services are accounted for in separate accounts. Additionally, Long Distance Deposits are recorded to a separate account. The applicable TVT accounts are listed below:

- ❑ Account 1406.130.00 – Non-regulated Investment – Voice Mail
- ❑ Account 1406.150.00 – Non-regulated Investment – Pay Phone
- ❑ Account 1406.210.00 – Non-regulated Investment – Long Distance Deposit

Reserves associated with Voice Mail and Payphone investments are directly accounted for in the following accounts:

- ❑ Account 1406.131.00 – Accumulated Depreciation Investment in Voice Mail
- ❑ Account 1406.151.00 – Accumulated Depreciation Investment in Pay Phone

All other investments, including related reserves, attributable to Non-regulated Services are allocated in the annual cost study process as indicated in Table 1:

Table 1 – Investment/Reserve Non-regulated Allocation Methods

Account	Description	Allocation Method
2111	Land - Miltonvale	Special Study
2121/3121	Buildings - Miltonvale	Special Study
2112/3112	Motor Vehicles	Time Study
2114/3114	Tools and Other Work Equipment	Time Study
2122/3122	Furniture	Time Study
2123/3123	Office Equipment	Time Study
2124/3124	Computers	Time Study

A sample of the allocation of the other investments, shown in Table 1, to non-regulated services is included in Attachment 2. The Special Study allocates a portion of the Land and Building costs based on the floor space attributable to customer and corporate operations and a time study that identifies the percentage of time spent by related TVT personnel on non-regulated services. All other investments are allocated based on time studies. As shown in Attachment 2, maintenance, depreciation and deferred income tax reserves are allocated to non-regulated services based on the assignment of the related investment accounts.

Assignment of Expenses to Non-regulated Services

TVT has implemented accounting processes that directly identify and account for the majority of non-regulated expenses. For goods and services attributable to non-regulated services that are invoiced, such as equipment purchases or vendor billings, the related costs are directly assigned and accounted for as non-regulated expenses. Labor-related expenses are directly accounted for based on time reporting of employees that are involved with the provisioning and/or administration of non-regulated services. Benefit costs and certain overheads are assigned to non-regulated services based on the associated labor costs or payroll hours. TVT utilizes clearing accounts for assignment of such costs. TVT has established and maintains the sub-accounts shown in Table 2 for purposes of accounting for non-regulated expenses. Table 2 also indicates the primary accounting basis for recording non-regulated costs.

Table 2 – TVT Non-regulated Expense Accounts *

Account	Description	Primary Basis
7991.260	Non-reg Exp – Payphone Equip.	Time Reporting
7991.290	Non-reg Exp – Payphone Other	Invoice
7992.310	Non-reg Exp – Term Eq Maint & Repair	Time Reporting
7992.410	Non-reg Exp – Term Eq Install Labor	Time Reporting
7992.510	Non-reg Exp – Term Eq Mat & Supplies	Invoice
7992.610	Non-reg Exp – Voice Mail Deprec	Journal
7996.310	Non-reg Exp – Long Dist Cost of Sales	Invoice
7996.320	Non-reg Exp – Long Dist Billing & Coll	Invoice
7996.330	Non-reg Exp – Long Dist Advertising	Invoice
7996.340	Non-reg Exp – Long Dist Gen & Admin	Time Reporting
7996.350	Non-reg Exp – Long Dist Other	Invoice
7997.310	Non-reg Exp – Internet Cost of Sales	Invoice
7997.330	Non-reg Exp – Internet Advertising	Invoice
7997.340	Non-reg Exp – Internet Gen & Admin	Time Reporting
7997.350	Non-reg Exp – Internet Other	Invoice

Description of Primary TVT Non-regulated Expense Items that are Accounted for Based on Invoices

7991.290 – Non-reg Exp – Payphone Other – This reflects rental expenses associated with Payphone station equipment.

7992.510 – Non-reg Exp – Term Eq Mat & Supplies – Includes vendor costs for materials and supplies associated with customer premise wiring or inside wire.

7996.310 – Non-reg Exp – Long Dist Cost of Sales – This account contains the wholesale costs associated with TVT's long distance services billed monthly to TVT by the facilities-based long-distance provider.

7996.320 - Non-reg Exp – Long Dist Billing & Coll. – This account includes the cost that is associated with long distance customer billing that is prepared by the billing vendor on behalf of TVT .

7996.330 - Non-reg Exp – Long Dist Advertising – Reflects costs associated with advertising and promoting TVT's long distance services.

7996.350 - Non-reg Exp – Long Dist Other – Includes miscellaneous costs and adjustments that are attributable to long distance services such as the costs of prepaid calling cards for sale.

7997.310 - Non-reg Exp – Internet Cost of Sales – Includes costs billed to TVT by the Internet Service Provider for web-based services and customer help desk.

7997.330 - Non-reg Exp – Internet Advertising - Reflects costs associated with advertising and promoting TVT's Internet services.

7997.350 - Non-reg Exp – Internet Other - Includes miscellaneous costs and adjustments that are attributable to Internet services such as periodic publications sent to TVT Internet subscribers and prepaid Internet service CDs.

Description of TVT Non-regulated Expenses Accounted for Based on Time Reporting

TVT has implemented and maintains a time-reporting system to capture labor-related costs associated with providing non-regulated services. The accounts indicated above, capture the payroll and other costs that are assigned to non-regulated services provided by TVT based on time reporting. The following labor related costs for non-regulated services provided by TVT are captured through the time reporting process:

- Payphone maintenance and coin collection
- Inside wire maintenance and repair
- Inside wire installation
- Customer services (service order, customer inquiry and billing) for long distance and Internet
- General and Administrative functions (management, accounting, and payroll) for long distance and Internet.

TVT employees, including administrative and management personnel, prepare time sheets that account for the amount of time the employee has spent on non-regulated services. Plant technicians, customer service/office personnel, and TVT managers submit time sheets on a semimonthly basis. Sample time sheets are shown in Attachment 3. For each employee, payroll costs are assigned to non-regulated services based on the respective amount of work hours spent on non-regulated services. In addition to salaries and wages, other labor related costs are assigned or loaded. Different loadings are applicable to plant technicians and office personnel. The following costs are loaded onto the labor costs of all personnel (both plant technicians and office personnel):

- Health Insurance
- Social Security
- Pensions
- Life and Disability Insurance

In addition to the above loadings, the following costs are loaded, based on payroll hours, onto the labor-related costs of plant technicians:

- Motor Vehicles Expense
- Other Work Equipment

- Plant Operations Administrative Expense

Other TVT Non-regulated Expense Allocations and Assignments

Other expenses attributable to Non-regulated Services are allocated in the annual cost study process as indicated in Table 3:

Table 3 – Investment/Reserve Non-regulated Allocation Methods

Account	Description	Allocation Method
6561	Depreciation Exp - Buildings	Building Invest.
6561	Depreciation Exp - Motor Vehicles	Motor Vehicle Invest.
6561	Depreciation Exp - Furniture	Furniture Invest
6561	Depreciation Exp – Office Eqpt	Office Eqpt. Invest
6561	Depreciation Exp - Computers	Computer Invest
6121	Land & Building Exp	Building Invest
6122	Furniture Exp	Furniture Invest
6123	Office Equipment Exp	Office Eqpt. Invest
6124	Computer Exp	Computer Invest
7240	Other Taxes - Property	Investment

A sample of the allocation of the other expenses, shown in Table 3, to non-regulated services is included in Attachment 2. As indicated in the above table, the depreciation and facility related expenses are allocated to non-regulated services based on the assignment of the related investment accounts.

An adjustment is also made in the annual cost study, Account 6230 to reassign expenses related to transport of Internet services to non-regulated operations. Also, Account 6351.110, Public Telephone Equipment Expense, is adjusted in the study to include these expenses as non-regulated amounts.

Accounting for Non-regulated Expenses Related to Contact Services TVT Provides to TVC

As stated previously, TVT provides services to TVC on a contractual basis. Costs related to these services are billed by TVT to TVC, pursuant to the contractual agreement contained in Attachment 1. Associated costs are directly accounted for on the books maintained by TVC. TVT provides installation and maintenance services for cable television and telephone systems provided by TVC. Also, TVT provides customer service, billing, administrative and management services to TVC.

TVC typically makes all of its own payment for goods and services purchased, other than payroll costs. Occasional purchases of equipment, materials and supplies by TVT on behalf of TVC are directly accounted for by TVC. Terms of payment or reimbursement

to TVT for the purchases are covered in the agreement contained in Attachment 1. Costs associated with labor and services provided by TVT to TVC are accounted for based on the time reporting process described above, with the exception that costs are maintained on the books of TVC rather than TVT.

Timesheets used by TVT employees contain separate lines for reporting work time that is spent providing services to TVC. Additionally, outside employees also fill out a timesheets for TVC that identify the specific accounts (on TVC's books) for recording associated costs. Employees performing the following functions on behalf of TVC report work hours through the time reporting process:

- Telephone system sales and quotes
- Telephone system installation and maintenance
- Cable television supervision
- Cable television installation and maintenance
- Customer service and billing for TVC
- Administration for TVC (Accounting, Payroll Etc.)
- Management of TVC

The employee records work hours attributable to TVC. Payroll charges as well as payroll loadings (social security, pension, and insurance) and other loadings (motor vehicles exp, other work equipment expense, and plant administration expense) described above are assigned to TVC. TVT sets up a receivable account for these amounts and bills TVC for the services. TVC submits a payment to TVT for the costs incurred.

ATTACHMENT 1

TWIN VALLEY TELEPHONE, INC. AND TWIN VALLEY COMMUNICATIONS,
INC.

AGREEMENT FOR THE FURNISHING OF LABOR, EQUIPMENT, AND
MATERIALS FOR CATV MAINTENANCE

ATTACHMENT 2

TWIN VALLEY TELEPHONE, INC.

**EXAMPLE OF NON-REGULATED ALLOCATION OF GENERAL SUPPORT
ASSETS, RESERVES AND EXPENSES**

ATTACHMENT 3

TWIN VALLEY TELEPHONE, INC.

EXAMPLES OF OUTSIDE AND INSIDE EMPLOYEE TIME SHEETS